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TAGS: [EFIN](#) [PGOV](#) [ECON](#) [ES](#)
SUBJECT: BANKS AGREE TO ROLLOVER GOES DEBT FOR ONE MORE
MONTH

REF: A. SAN SALVADOR 1332
[1](#)B. SAN SALVADOR 1364

[1](#)1. (SBU) SUMMARY. Private banks, including Citibank and Banco Agricola, agreed to rollover the Government of El Salvador's (GOES) December short-term debt for one month, preventing a potential government default. While the banks are unwilling to rollover debt past the January legislative elections, the GOES should be able to finance itself for January using the first tranche of its \$500 million Inter-American Development Bank (IDB) loan. How the GOES will finance over \$200 million in short-term debt in February and March, however, will depend on how quickly and effectively it works with other international financial institutions. END SUMMARY.

[1](#)2. (SBU) On December 12, Ministry of Finance Director for Fiscal and Public Credit Policy Manuel Rosales told Econoff that the GOES "was in big trouble" because it did not know how it was going to rollover \$60 million in Letters of Treasury ("Letes") due December 15/16 (reftel A). Their \$500 million Inter-American Development Bank (IDB) loan (reftel B) had been held up in the National Assembly while the (left-wing) FMLN "earmarked" \$300 million in proposed social spending. The three Gulf nations El Salvador had approached in early December were unlikely to invest until January or February (if at all). Tax revenues were showing a "big, big, big" drop as the economy slowed "much faster than expected," so the GOES also needed to raise an additional \$28 million to cover this shortfall. Rosales said the Minister of Finance and Central Bank President were trying to develop options and had met with Citibank (\$20 million) and Banco Agricola (\$18 million) to plead with them to do a rollover. Rosales also requested USG pressure on Citibank to do the rollover.

[1](#)3. (SBU) Citibank Vice President for Corporate Finance Francisco Nunez (strictly protect) said on December 16 that Citibank had agreed to rollover its Letes "until just before the January 18 elections." Nunez understood that the other banks had also "fallen into line." After the GOES told Citibank that "the government had no money," Citibank agreed to the rollover, in part out of "fear of what the Saca government might do given their recent track record." Nunez stressed that the GOES "bought three more weeks," since Citibank needed the funds to prepare for possible capital flight after the January and March elections.

[1](#)4. (SBU) Rosales confirmed on December 18 that the GOES had reached an accord with Citibank and Banco Agricola. The GOES would "pay" their existing \$38 million in Letes, and, in the same transaction, the banks would buy \$15 million and \$16.5 million, respectively, in new 30-day Letes. Rosales said that other Letes payments could be delayed until December 23, and, since the IDB loan was approved December 18 (septel), the GOES could use the \$200 million first tranche to cover

the remaining \$56.5 million in December debt. Rosales added that the GOES would try to persuade the banks to roll over their January Letes as well, but, if they did not, the GOES could use the rest of the IDB tranche. According to Rosales, the Salvadoran private pension funds had refused to roll over their Letes.

15. (SBU) COMMENT: The banks' reluctant willingness to assist the GOES staved off a potential default, but the GOES now needs to finance approximately \$348.8 million in short-term debt before the March presidential election, not including new debt to cover tax revenue shortfalls. Since the banking sector expects a minimum of 7% capital flight because of the 2009 elections, they are unlikely to agree to additional rollovers until financial markets stabilize. The IDB loan should enable the GOES to manage January's \$125 million in existing debt. To cover the \$224 million due in February and March, however, the GOES will need to move quickly on an expected \$450 million World Bank loan (reftel B) and/or commit to a provisional stand-by arrangement (SBA) it has started negotiating with the International Monetary Fund.
END COMMENT.

GLAZER